APPENDIX A

PROJECT DESCRIPTION

Livelihoods Initiatives for Teso

Uganda

I. Introduction

This appendix describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Appendix A shall be construed as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

P'KWI Farmer to Farmer Cooperative Society Limited (PFFC) is a registered smallholder farmer cooperative society located in Bukedea District in Eastern Uganda. PFFC bulks and sells its members' sunflower oil seeds and has recently started processing some of the sunflower into oil to increase incomes. However, the productivity both at the farm level and the value addition levels is still very low. PFFC cannot fully exploit its potential and offer better returns to its members without first enhancing its productivity by improving its infrastructure and production systems as well as strengthening its managerial and technical capacity.

III. Funding

A. ADF Contribution

The financial plan for ADF's contribution is set forth in Appendix A-1 of this Agreement. The parties may make changes to the financial plan without formal amendment, if such changes are made in accordance with Article 8 of the Agreement and do not cause ADF's contribution to exceed the obligated amount specified in Article 4, section 4.1 of the Agreement.

B. PFFC Contribution

PFFC will contribute existing land, a building, oil extractor, six sets of ox-ploughs and a pick up motor vehicle. It will also contribute the time, skills, and labor of its volunteers and members. The cooperative will continue to pay for all operational costs not covered by ADF which include, but are not limited to, salaries and wages for two mill operators, one boiler operator, and four unskilled workers. Starting in the second year, PFFC will cover the additional costs originally covered by ADF including the salaries of the project manager, production officer, finance and administrative officer, two extension workers, and all transportation costs.

From its own resources PFFC plans to hire two mill operators and a boiler operator in the first year. An accounts assistant, as well as a training and monitoring officer and a data analyst, will be hired in the third year.

IV. Project Goal

The goal of this Project is to promote the development of small scale agricultural enterprises and improve the economic welfare of smallholder farmers in Bukedea District of Uganda.

V. Project Purpose

The purpose of this Project is to increase the income of PFFC members and its employees. This will be evidenced as follows.

A. Increased adjusted net income (before income taxes and depreciation) from UGX 60,750,000 in the project's base year to:
   1. UGX 78,672,000 in Year 1;
   2. UGX 251,994,000 in Year 2; and
   3. UGX 477,818,000 in Year 3.

B. Increased total amount of dividends that PFFC pays its members from zero in the project's base year, first and second years to UGX 50,239,000 in Year 3.

C. Total value of P'kwi's sunflower seed purchases from farmers increased from UGX 37,500,000 in the project's base year to:
   1. UGX 90,475,000 in Year 1;
   2. UGX 168,156,000 in Year 2; and
   3. UGX 279,801,000 in Year 3.

D. Increased payroll of full-time employees from UGX 0 in the project's base year to:
   1. UGX 33,600,000 in Year 1;
   2. UGX 37,397,000 in Year 2; and
   3. UGX 42,673,000 in Year 3.

VI. Project Outputs

By the end of the Project, the capacity of PFFC and its members to grow, process, and sell sunflower oil will increase as evidenced by the following.

A. Sales revenues increase from a baseline of UGX 202,500,000 in 2009 to:
   1. UGX 270,875,000 in Year 1;
   2. UGX 519,417,000 in Year 2; and
   3. UGX 864,275,000 in Year 3.

B. Total annual yield of oilseed produced by farmers increases from 300,000 kilograms in 2009 to:
   1. 405,000 kilograms in Year 1;
   2. 558,000 kilograms in Year 2; and
   3. 835,000 kilograms in Year 3.

C. Annual volume of processed and sold sunflower oil increases from 75,000 liters in 2009 to:
   1. 82,000 liters in Year 1;
   2. 139,000 liters in Year 2; and
   3. 208,000 liters in Year 3.

D. Number of farmers supplying sunflower seeds increases from 1,200 in 2009 to:
   1. 1,620 in Year 1;
   2. 1,863 in Year 2; and
   3. 2,142 in Year 3.

E. Improved business systems as evidenced by functional manual financial management and accounting systems that routinely produce records and reports for the Executive Committee's and management team's use in decision making.

F. Increased management capacity of PFFC as evidenced by increase in the number of full-time staff employed from the current zero (0) in the Project baseline year to:
   1. seven (7) in Years 1 and 2; and
   2. ten (10) in Year 3.

VII. Project Activities

PFFC will ensure, with the assistance of consultants as necessary, the following major activities are implemented.

A. Improve capacity of PFFC to bulk sunflower seed, process, and market the sunflower oil by:
   1. expanding the current storage space;
   2. procuring and installing water tanks to harvest rain water for the oil processing and stainless drums for storing produced oil;
   3. employing a production officer to manage the production process and a project manager that will coordinate and supervise all services and activities;
   4. improve packaging and labeling of produced oil;
   5. acquiring quality mark from the Uganda National Bureau of Standards; and
   6. developing and implementing an efficient crop finance system with the goal of increasing working capital each project year in order to buy larger percentage of members' produce each subsequent year.

B. Improve PFFC members' production capacity by:
   1. employing two field extension officers and providing them with transportation, to assist farmers on a routine basis;
   2. purchasing and distributing animal traction sets to cooperative members to improve farmer production; and
   3. training farmers in good agricultural practices.

C. Improve management operations by procuring and installing a solar energy system for powering the computers to facilitate uninterrupted storage and

retrieval of data and information to aid in information management and decision making by board and management.

D. Strengthen financial management by:
   1. hiring an accountant to manage and report on PFFC's finances;
   2. improving the existing manual accounting system to acceptable levels that provide timely and accurate financial information for decision making; and
   3. developing and implementing an accounting policies and procedures manual.

E. Diversify markets for sunflower oil by implementing proactive marketing strategies.

VIII. Roles and Responsibilities

ADF's Partner in Uganda will provide the necessary Standard ADF Training in bookkeeping, monitoring and assessment. PFFC is responsible for ensuring the proper management and implementation of the Project. The ADF Partner in Uganda will provide PFFC with technical and management assistance during implementation. The Grantee will continue to collaborate with SNV and NAADS (National Agricultural Advisory Service) in the areas of rural price information and training.

IX. Monitoring and Evaluation

ADF's Partner in Uganda will closely monitor the activities of PFFC to ensure proper reporting, adherence to the Project implementation plan by the Grantee, and movement towards the achievement of Project objectives. The Partner will continuously assess the Project risk and take remedial actions as needed. Monitoring by the Partner will be an important aspect of the on-going coaching and advisory service. The Partner will review PFFC's quarterly reports and will submit comments and observations to the management of PFFC as part of the on-going performance assessment.

X. Other Implementation Issues

Oxen and traction sets provided by the Grant will be given to the local economic groups. The groups will operate the oxen on a fee basis under the guidance of a qualified oxen trainer. Within the first four to six months of the Project, PKWI will set up a management committee for each group and will develop a brief manual of standard guidelines on the proper utilization of the oxen and traction equipment to ensure timely and equitable services to the members. The guidelines will be used by the oxen trainers, under the supervision of the management committees. Revenues will be used to cover operating fees for the oxen trainers, veterinary medicines, maintenance/replacement of oxen traction equipment, and purchase of additional oxen sets.

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